



SWC Submission #: **SWCCE-0016**  
 STATE WATER CONTRACTORS  
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**TO:** Department of Water Resources  
**FROM:** State Water Contractors<sup>1</sup>  
**DATE:** June 26, 2013  
**SUBJECT:** Second Offer for Extension of the State Water Project<sup>2</sup> Water Supply Contracts

This document contains a proposed Statement of Principles that could provide the foundation for an agreement among the State Water Project (SWP) Contractors<sup>3</sup> and the Department of Water Resources (DWR) that will extend the contracts.

## STATEMENT OF PRINCIPLES BY THE SWP CONTRACTORS

### 1 Objective 1: Term of Contract

- 1.1 Extend term of the SWP water supply contracts by 75 years from December 31, 2035.
- 1.2 Eliminate the contract term ending with the latest maturity date of any bond issued.

### 2 Objective 2a: Reserves

- 2.1 Commitment by SWC Contractors to make payment on charges due date, providing the

<sup>1</sup> The SWC organization is a nonprofit mutual benefit corporation that represents and protects the common interests of its 27 member public agencies in the vital water supplies provided by California's State Water Project ("SWP"). Each of the SWC member agencies holds a contract with the California Department of Water Resources ("DWR") to receive water supplies from the SWP. Collectively, the SWC members deliver water to more than 25 million residents throughout the state and more than 750,000 acres of agricultural lands. SWP water is served from the San Francisco Bay Area, to the San Joaquin Valley and the Central Coast, to Southern California. The SWC's members are: Alameda County Flood Control and Water Conservation District Zone 7; Alameda County Water District; Antelope Valley-East Kern Water Agency; Casitas Municipal Water District; Castaic Lake Water Agency; Central Coastal Water Authority; City of Yuba City; Coachella Valley Water District; County of Kings; Crestline-Lake Arrowhead Water Agency; Desert Water Agency; Dudley Ridge Water District; Empire-West Side Irrigation District; Kern County Water Agency; Littlerock Creek Irrigation District; Metropolitan Water District of Southern California; Mojave Water Agency; Napa County Flood Control and Water Conservation District; Oak Flat Water District; Palmdale Water District; San Bernardino Valley Municipal Water District; San Gabriel Valley Municipal Water District; San Geronimo Pass Water Agency; San Luis Obispo County Flood Control & Water Conservation District; Santa Clara Valley Water District; Solano County Water Agency; and Tulare Lake Basin Water Storage District.

<sup>2</sup> The State Water Project is the name commonly used to refer to the State Water Resources Development System (Water Code Section 12931)

<sup>3</sup> The State Water Project Contractors includes the SWC organization's 27 member public agencies, Butte County County Water and Resource Conservation, and Plumas County Flood Control and Water Conservation District.



SWP with the cash-flow advantages currently benefiting the SWP Contractors under the 30-day grace period authorized under Article 32(b).

**2.2** Increase the authorized General Operating Account (GOA) balance from \$32 million to \$60 million pursuant to Article 51(a)(3) and Article 51(e)(3)(v).

**2.2.1** Authorize the GOA to be used for any cash-flow deficiencies resulting from a chargeable water supply purpose within the SWRDS.

**2.2.2** Eliminate the GOA adjustment authorized after 2001 in Article 51(a)(3).

**2.2.3** Authorize SWRDS to refund annually the investment earnings on the GOA fund.

**2.2.4** Establish GOA funding as a superior priority to the additional State Water Resources Development System (SWRDS) purposes under Article 51(e)(1)(iii) and subordinate to rate reductions under Article 51(e)(1)(ii).

**2.2.5** Subsequent to the payoff of the Pooled Money Investment Account (PMIA) loan:

**2.2.5.1** Eliminate the GOA rate of funding per year, \$2 million, to any amount of excess determined in Article 51(e)(1)(ii) subject to the authorized maximum balance.

**2.2.5.2** Increase the Contractors rate reduction to \$48 million under Article 51(e)(1)(ii).

**2.3** Implement stringent fiscal policies and administrative measures for operation of the SWRDS. Increases in GOA balance above the \$60 million would be based on implementation of financial policies and milestones, and the reduction in annual net over collections.

**2.3.1** Establish, separate and apart from other DWR functions, a financial



organization responsible for all financial aspects of the SWRDS enterprise.

- 2.3.2** Annually prepare and implement a financial plan for the SWRDS, managing all SWRDS financial activities and enterprise operations each year, to ensure compliance with that financial plan.
- 2.3.3** Develop the appropriate infrastructure necessary to successfully implement the development, implementation, and management of an annual SWRDS financial plan.
- 2.3.4** Implement best business practices for reporting the annual SWRDS financial plan and evaluating financial performance.
- 2.3.5** Establish an oversight and approval body, comprised of DWR management and SWP Contractors, responsible for establishing financial policies and financial goals for the financial management of SWRDS, ensuring financial compliance with the plan and the overall goals of the organization.

### **3 Objective 3: Simplify the State Water Project Billing Process**

- 3.1** Eliminate the Replacement Accounting System (RAS) for Transportation and Conservation Facilities with the intent to have replacement costs treated as a minimum or capital cost. The cash balance of the reserve funds are to be returned to the SWP Contractors.
- 3.2** By January 1, 2016, transition the amortized operation, maintenance, power, and replacement costs recovery of project conservation facilities to an annual cost recovery or Pay-As-You-Go Billing Methodology.
- 3.3** By January 1, 2016, transition the amortized capital cost recovery of project conservation and transportation facilities to an annual recovery of debt service including bond cover; paying annual debt service obligations on a Pay-As-You-Go



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Methodology, given that any use of 51(e) revenues for the benefit of the SWRDS has an equitable benefit among the SWP Contractors.

- 3.4** Eliminate interest charged on redetermination of underpayments and overpayments on costs incurred on January 1, 2016 and extending to the term of the contract.
- 3.5** Eliminate the Water Systems Revenue Bond Surcharge at the conclusion of the project repayment period on December 31, 2035.